Manitoba

Annual Report 1999

The Public Utilities Board

January 1, 1999 - December 31, 1999

Includes 10% post-consumer waste

The Honourable Ron Lemieux
Minister of Consumer and Corporate Affairs
314 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Lemieux:

Pursuant to the provisions of Section 109(1) of The Public Utilities Board Act, I am pleased to submit to you, the Fortieth Annual Report of the Board, pertaining to the year ending on the Thirty-first day of December 1999. This Annual Report is submitted to you on behalf of my colleagues who served on the Board for the period covered by this report.

Sincerely,

G.D. Forrest
Chairman

FORTIETH ANNUAL REPORT OF THE PUBLIC UTILITIES BOARD

FOR THE YEAR ENDING DECEMBER 31, 1999

CHAIRMAN'S REMARKS

Over the past few years there have been significant changes in the Regulatory environment. Nowhere are these changes more evident than in utility regulation, as new developments bring about significant changes in the gas and electricity industries. With trade barriers being reduced or eliminated and with it the globalization of the world's economy, gas and electric utilities are repositioning themselves to meet the needs of market restructuring and to exploit the opportunities presented by emerging technologies.

Canada has not been insulated from this momentum of change. The Ontario electricity restructuring program for Ontario Hydro came into effect on April 1st, 1999. Just prior to that event the merger of Nova and TransCanada Pipelines, the largest merger at that time in Canadian history, has effected how natural gas is shipped to the North American Gas Market. The development of the Off-shore Sable Island Gas Field coupled with the building of new transmission facilities increasing the capacity for Canadian gas will further impact this industry, markets and consumers, large or small.

Significant changes in the regulatory rules in the United States have affected gas and electricity markets, including the electricity export market from which several Canadian utilities realize significant earnings. The increasing ability to move electricity from one end of the continent to the other has caused regulators to develop new rules to deal with significant issues such as system integrity and reliability.

As a significant exporter of electricity, changes in the regulatory environment in the U.S. will continue to be of special interest to Manitoba.

In Manitoba, we too have been impacted by these winds of change. In the summer of 1999, the Board issued its decision No. 146/99, which granted conditional approval to the acquisition of Centra Gas Manitoba Inc. by Manitoba Hydro. By this transaction, Manitoba's largest crown corporation became the dominant provider of the energy needs to Manitoba's consumers. Being in this position presents new opportunities to Manitoba Hydro for a more effective use of our energy resources in Manitoba.

With the ability to move natural gas around the continent, the cost of Canadian natural gas now more closely reflects the North American cost for the commodity. Market forces together with increased demand has seen the commodity cost of natural gas increased significantly. In a period of a year the average cost increased from $2.38/GJ Can to $3.96/GJ Can. Consumers can expect to see the impact of these market forces on the commodity portion of their gas bills.

Both Manitoba Hydro and Manitoba Public Insurance (MPI) have made great strides to improve their financial integrity. During the past year Manitoba Hydro improved its debt/equity ratio from 84:16 in 1998/99 to 82:18 forecast for 1999/00. For the year 2000:01 the debt/equity ratio is expected to be 80:20. Manitoba Hydro hopes to achieve its debt/equity target of 75:25 in 2003/04. MPI's Basic Rate Stabilization Reserve Fund is forecasted to be at $91 million for year 2000. This compares with a deficit reserve fund of $49.9 million in 1996.

During the year covered by this report, the Board has reviewed the rate matters for both the Gladstone, Austin Natural Gas Co-op (GANG) and Stittco Utilities Man Ltd. In both instances, increases were provided to offset the increased cost of the commodity. Both utilities continue to serve their customers well.

I am pleased to report that due the excellent work of staff of owners of public utilities throughout Manitoba, no failures in the provision of the essential services provided by these owners were encountered due to Y2K. I congratulate and thank the owners and their staff.

The Elmwood Cemetery transition from a for-profit to a not-for-profit organization occurred in

1999. The group titled Friends of the Elmwood Cemetery assumed all trust and contractual obligations from the owner. The Board will continue to monitor such operations.

The significant effort of the past year could not have been accomplished without the dedication and enthusiasm of my colleagues on the Board, and the skills and knowledge of Board staff and the multi-disciplinary team of advisors. I would also like to thank the applicants, the intervenors and the public for their cooperation and for the quality of their input.

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RESPONSIBILITIES

The Public Utilities Board (the Board) is an independent quasi-judicial body operating under the authority of the Manitoba Legislature. While The Public Utilities Board Act was passed in 1959 the Board has regulated services under other legislation since 1912.

The Board is responsible for the regulation of public utilities as defined under *The Public Utilities Board Act*; namely: Centra Gas Manitoba Inc., Stittco Utilities Man Ltd., Gladstone, Austin Natural Gas Co-op Ltd., all energy providers and most water and sewer utilities in the Province.

The Board also regulates the premiums charged for compulsory auto insurance and related premiums charged on drivers' licences and Manitoba Hydro's rates for the sale of power, all pursuant to *The Crown Corporations and Public Review and Accountability Act*. Other enactments which assign regulatory or adjudicative responsibilities to the Board are:

The Greater Winnipeg Gas Distribution Act
The Gas Allocation Act
The Prearranged Funeral Services Act
The Cemeteries Act
The City of Winnipeg Act (passenger carrier agreements)
The Manitoba Water Services Board Act (Appeals)
The Highways Protection Act (Appeals)

The Board is also responsible for the administration of The Gas Pipe Line Act which requires the Board to authorize construction and operation of all gas pipe lines in Manitoba.

MEMBERS OF THE BOARD

As of December 31, 1999 the members of the Board were:

G. D. Forrest, Chairman
E. Jacks, Vice-Chairman
D. T. Anderson, Q. C.
D. L. Barrett-Hrominchuk
K. Collin
D. Bagley
E. Edmondson
J. A. MacDonald

SUMMARY OF BOARD ACTIVITIES

BOARD MEETINGS AND HEARINGS

Board Meetings	23
Public Hearing Days	46
Appeal Hearings	
- Disconnection of Service	23
The Highways Protection Act	3
Pre-Hearing Conference Days	1

ORDERS ISSUED

During the year ending December 31, 1999, 217 Orders were issued, as follows:

Regulated Industry Orders:

Water and Sewer Utilities	68
Natural Gas and Propane Utilities	46
Service Disconnection and Reconnection	23
Highways Protection Act	3
Manitoba Hydro	65
Manitoba Public Insurance Corporation	10
The City of Winnipeg Act (Transportation)	1
The Gas Pipe Line Act	1

Note: Copies of the decisions of The Public Utilities Board of Manitoba are available from the Board's office upon request.

NATURAL GAS DISTRIBUTION

CENTRA GAS MANITOBA INC.

OVERVIEW:

1999 was a busy year for Centra Gas Manitoba Inc. The Board was occupied with matters concerning further deregulation of the retail market. Centra was acquired by the Crown owned Manitoba Hydro and commodity prices for natural gas varied significantly in this period.

APPLICATION FOR AN EX-PARTE ORDER AUTHORIZING THE DEFERRAL AND SUBSEQUENT RECOVERY OF INCREMENTAL MARKETING AND DEVELOPMENT SALARIES AND BENEFITS - *Board Order No: 11/99 dated January 20, 1999*

By letter dated October 19, 1998, Centra Gas Manitoba Inc. applied to the Board for an accounting order "authorizing the deferral and subsequent recovery of incremental marketing and development salaries and benefits."

In the past, Centra has capitalized incremental marketing and development salaries and benefits for feasibility, accounting and regulatory purposes. Centra requested to defer the costs as they are incurred and then recover them in future rates through revenue requirement by amortizing them over a period of one year, or such other period as determined by the Board.

The Board determined that, except for the 1998 incremental marketing and development costs specifically referred to in Order 79/98, Centra should continue to capitalize incremental marketing and development costs for feasibility, accounting and regulatory purposes as they have in the past. Centra's application for an accounting order to defer incremental marketing costs was therefore denied.

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN ORDER TO APPROVE THE SALE OF THE WILKES AVENUE PROPANE FACILITIES PURSUANT TO SECTION 82(1)(h) OF THE PUBLIC UTILITIES BOARD ACT - *Board Order No: 87/99 dated May 14 1999*

For several years Centra used propane for the purposes of meeting its peak requirements (referred to as "peak shaving") by injecting a propane/air mixture into the system during periods of extremely cold weather when customer requirements exceeded contracted levels of natural gas supply. The storage and related plant facilities that supplied the propane were located at Centra's Wilkes and La Salle sites and were constructed between 1961 and 1974. The Wilkes site included two 5,000,000 gallon storage tanks and propane plant and the La Salle site included a 10,000,000 gallon storage tank. A seven mile propane pipeline connected the operation of the two sites.

The requirement to make significant capital upgrades of the peak shaving facilities and the evolution of the natural gas market, which provided more economical peak shaving supplies, caused Centra to consider the use of alternate peaking supplies. This change in peaking supplies resulted in the Wilkes site being decommissioned in 1991 and the La Salle site being taken out of service in 1995 and decommissioned in 1996.

By letter dated April 16, 1999, Centra advised that they had recently executed an agreement for the sale and removal of the propane storage and peak shaving facilities at its Wilkes Avenue site. The purpose of the letter was to provide the details of the sale to the Board and to request approval of the sale under Section 82(1)(h) of The Public Utilities Board Act.

The commercial opportunities to sell these types of facilities are limited, and in the absence of a sale, Centra would be faced with dismantling costs in excess of $400,000. The Board approved the sale pursuant to Section 82(1)(h) of The Public Utilities Board Act.

FILING REQUIREMENTS AND ISSUES TO BE EXAMINED IN RESPECT OF AN APPLICATION BY WESTCOAST ENERGY INC., REGARDING THE PROPOSED ACQUISITION OF ALL OF THE ISSUED AND OUTSTANDING SHARES OF CENTRA GAS MANITOBA INC. BY MANITOBA HYDRO - *Board Order No: 90/99 dated May28,1999*

The Board was advised that Westcoast Energy Inc. ("Westcoast") had signed a Letter of Intent with Manitoba Hydro ("Hydro") concerning the possible acquisition by Hydro of all issued and outstanding shares of Centra, an indirect wholly-owned subsidiary of Westcoast.

The Board was further advised that a Share Purchase Agreement was signed by both parties on May 14, 1999 with the provision that closing is conditional on the approval of the Board.

To assist the Board in establishing the scope of its review of this transaction, the Board by way of public notice requested comments from all interested parties in the following areas:

1) What issues should be included in the Board's review of the transaction?

2) What filing requirements should be included with the request for approval of the transaction?

The Board reviewed all submissions and determined that four broad issues should be addressed in consideration of the Public Interest with respect to Hydro's proposed acquisition of Centra as follows.

The impact of the proposed transaction:

1) On the provision of safe and reliable utility services.
2) On rates charged to rate payers of both utilities.
3) On competition in both the electric and natural gas industry in Manitoba.
4) On future regulation of each of the utilities.

The Board also set out Filing Requirements consisting of 24 items to be filed with the

Application for consideration at the subsequent hearing.

AN APPLICATION BY CENTRA FOR AN ORDER TO APPROVE THE POLICY GUIDELINES FOR PRICE MANAGEMENT AND THE 1998/99 PRICE MANAGEMENT PLAN - ***Board Order No: 100/99 dated June 8, 1999***

Centra applied for an Order approving the Policy Guidelines which were filed with the Board on October 28, 1998 and the Price Management Plan which was filed with the Board on November 23, 1998. A hearing was held February 15 to 18 and closing argument was heard on February 25, 1999.

In Centra's view the previous price management policy was not effective in tempering volatility on behalf of the ratepayers, and the undesirable results culminated in a significant disallowance of gas costs.

Centra's philosophy of price management is to provide a means of balancing market responsive pricing with rate stability. It is not Centra's objective to obtain the lowest possible cost by trying to "beat the market". Extremes in price volatility are to be managed though rate stability as one objective of price management, Centra witnesses agreed that rate stability and market responsive pricing were mutually exclusive and posed a fundamental dilemma to the policy.

The philosophy also states that "it is unreasonable for the Company to take on additional risk as there is no profit earned. Centra's witnesses explained that controls, oversight and monitoring in the Policy Guidelines were greater than those contained in the previous Policy. There is a prohibition against speculation, trading could not be engaged in under this Policy. Centra will limit itself to the use of over the counter instruments consisting of price swaps, caps, and collars.

The percentage of 1998 gas volumes eligible for price management based on a warmest year is 74%; a normal year is 67%; and a coldest year is 59%.

A substantial part of the Price Management Policy details the roles and responsibilities of the committees and individuals involved.

Centra witnesses testified that as a result of the Policy Guidelines the risks of price management would diminish on an overall basis compared to the previous policy. Market risk would not substantially be altered, but the operational risk would be reduced because the proposed Policy contemplates significantly fewer transactions. With fewer transactions, the control and reporting risk will be reduced. Additionally, the organizational structure has been realigned and controls greatly expanded. Credit risk would largely remain the same even with fewer transactions as each transaction involves a larger monetary amount. Finally, the regulatory risk is reduced since the intent is to shift the Board's involvement from ex-post to ex-ante approval of the program, but still recognizing the Board's authority to review the execution of specific transactions after the fact. The applied for approach is aligned with a future test year

Furthermore, Centra would not hedge the basis differential between the NYMEX and

Alberta prices. This would further curtail the price management program from its previous scope.

Centra engaged Viewpoints Research Ltd. to research customer perceptions on natural gas pricing and expectations regarding potential price management scenarios. The research incorporated discussions with two focus groups and a telephone survey of 600 customers. What Centra concluded from the focus group and incorporated into the Plan was that a plus or minus $5 per month variance in the monthly bill was inconsequential to most customers.

Centra recommended the PGVA balance be disposed of on a more frequent basis.

Manitoba Hydro signed on May 14, 1999, a definitive share purchase agreement after the close of the evidentiary and argument of March 10, 1999.

The Board considered the various issues arising out of the proposed policy and guidelines providing extensive comments as to its concerns. In consideration of the new ownership of Centra Gas the Board ordered the company to file new price management Policy Guidelines addressing the concerns as expressed by the Board in the Order.

AN APPLICATION BY CENTRA GAS MANITOBA INC., ON ITS OWN BEHALF AND ON BEHALF OF THE RURAL MUNICIPALITY OF ROCKWOOD, THE RURAL MUNICIPALITY OF WOODLANDS AND THE TOWN OF TEULON, FOR AN ORDER: 1. APPROVING AND AUTHORIZING NEW FRANCHISE AGREEMENTS WITH THE RURAL MUNICIPALITIES OF ROCKWOOD AND WOODLANDS AND THE TOWN OF TEULON; 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS TO THE COMMUNITIES OF GROSSE ISLE (THAT PORTION LOCATED IN THE RURAL MUNICIPALITY OF ROCKWOOD), BALMORAL, GUNTON, WARREN, WOODLANDS, AND TEULON; 3. APPROVING AN EXPANSION SURCHARGE RATE TO BE CHARGED FOR THE SALE OF GAS AND PROVISION OF TRANSPORTATION SERVICES TO NEW CUSTOMERS IN THE RURAL MUNICIPALITIES OF ROCKWOOD AND WOODLANDS AND THE TOWN OF TEULON - *Order No. 115/99, dated June 24, 1999*

During 1994 and 1995, the Interlake Development Corporation considered the economic viability of providing natural gas service to the Interlake area. The Interlake Natural Gas Co-op Ltd. (ING) was incorporated in 1996 and developed a business plan related to the extension of natural gas to the Interlake. ING subsequently established a working relationship with Centra, and also approached the Federal, Provincial and Municipal governments to secure third party funding necessary to make the proposed project financially viable.

A two-stage development program, each stage consisting of two phases was presented. Stage I was to extend natural gas service to six communities within the Rural Municipalities of Rockwood and Woodlands in Phase I and to all of the rural customers in Rockwood and Woodlands in Phase II.

Stage II was to extend natural gas to Arborg and Riverton in Phase I and Bifrost and Gimli in Phase II.

In December 1998, Centra applied to the Board for approval of new franchise agreements for the distribution of natural gas within the Rural Municipalities of Rockwood and Woodlands, and the Town of Teulon and applied for the approval of the financial feasibility test for expansion of natural gas service to the communities of Grosse Isle (that portion located in the Rural Municipality of Rockwood), Balmoral, Gunton, Warren, Woodlands and Teulon. Centra also requested approval of an expansion surcharge rate to be charged to new customers in the Rural Municipalities of Rockwood and Woodlands and the Town of Teulon.

A public hearing to consider the Application was held in Teulon over seven days during March 1999, and final argument was heard on April 7, 1999.

The proposed Phase I, Stage I project has an estimated capital cost of $7,796,000 to be financed by a Federal contribution of $2,350,000, a Provincial contribution of $2,350,000, Municipal contributions totalling $4,247,000, connection fees of $332,000 and an investment from Centra of $552,000. The total funding package provides for $2,035,000 to be set aside to provide for cost overruns from Phase I, if any, and to provide for future contribution funding for Phase II. No financial information regarding Phase II was filed with the Application.

Approximately $3,395,000 of the required municipal funding was to be provided by increased property taxes resulting from proposed general levy increases of up to two mills. The balance of the municipal funding of approximately $852,000 was to come from increased property taxes on the distribution plant to be installed.

Those who spoke in favour of the Application talked about the need to create economic development and provide energy options for current and future businesses. They argued that without natural gas, the Interlake is at a disadvantage with respect to attracting new industry to the communities, and with respect to existing businesses becoming more competitive, thereby creating job opportunities to retain young people in the community, and to increase the tax base. Most people who spoke in opposition to the Application were not opposed to natural gas service. Most presenters who spoke against the Application expressed frustration and concern with the process followed by the municipalities, the lack of communication between the residents of the communities and the local governments, and the lack of opportunity for the residents to express their views and opinions to the municipal governments.

This opposition was further supported by a petition that was filed which purported to represent in excess of 3,000 single-family dwellings, many of them rural homes. This apparent significant opposition to the project by the rural citizens raised the Board's concerns regarding the potential customer attachments in Phase II. In addition, the Application before the Board included no information regarding the financial viability of Phase II. In its decision the Board denied approving the financial feasibility test for Phase I on a stand-alone basis.

The Board directed Centra to file a revised financial feasibility test with the Board to include both Phase I and Phase II of Stage I, and to reflect current market information on potential customers and customer attachments.

The Board urged the various municipal councils to seize the opportunity, in the time interval available while Centra updates its Application, to re-evaluate, along with its constituents, the various funding options that are available, and to consider options to re-establish communications with their constituents. The Board chose this alternative rather than exercising its jurisdiction under Section 66 of the Public Utilities Act to require a vote of the residents, an action that was recommended by some Intervenors.

The proposed new franchise agreements have been approved, subject to Centra complying with the various other conditions of the Order discussed above.

AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN ORDER OF THE BOARD SEEKING APPROVAL OF: INTERIM SALES RATES EFFECTIVE JULY 1, 1999 FINAL 1998 GAS COSTS AND 1998 GAS COST DEFERRAL ACCOUNTS CONFIRMATION OF INTERIM EX-PARTE ORDER 165/98 INTERIM PROCESS FOR DISPOSAL OF ESTIMATED BALANCES IN THE 1999 PURCHASE GAS VARIANCE ACCOUNT A SOLUTION RESPECTING THE IMPACT OF SYSTEM EXPANSION ON VARIOUS CUSTOMER CLASSES 6. IMPLEMENTATION OF CLASS WEIGHTED AVERAGE COSTS OF GAS FOR CALCULATION OF RECOVERY OF GAS COST DEFERRAL ACCOUNTS - *Order No. 118/99 dated June 29, 1999*

Centra's initial Application for 1999 rates proposed rate decreases for all customer classes except those in the Mainline class for whom modest rate increases were proposed. Through a series of amendments to its Application based on the use of the weighted average cost of gas (WACOG) and increases in the forecast cost of natural gas, the resulting rate increases to those customers in the High Volume Firm, Mainline and Interruptible classes became significant. Customers in the SGS class and the LGS class were to receive rate reductions.

The Board approved the forecast cost of gas for 1999 and provided directions to Centra to recalculate rates based on the Board's directives.

The Board accepts the use of Class WACOG, as it is the correct methodology to be employed to calculate customer class responsibility for deferral account balances. To moderate the impacts that the conversion to Class WACOG has on high volume customers, rate riders to recover the balances owing to Centra, by these customers, were deferred to be recovered between April 1, 2000 and December 31, 2001.

For rate setting purposes the Board also approves $2.74/GJ as the 1999 unit cost of Western Canadian supplied gas. The forecast average annual cost of gas went from $2.20/GJ in August 1998, to $2.54/GJ in February 1999; to $2.66/GJ in April 1999

and now to \$2.74/GJ. This increase from \$2.20/GJ to \$2.74/GJ has resulted in an additional \$28.3 million of gas costs to be recovered in 1999 rates.

The annual cost impact of expansions will now be offset by an accelerated amortization of customer contributions in aid of construction so as to not adversely impact any customer class through the allocation of the costs of expansions.

In this Order, the Board also specifies the carrying costs that Centra is permitted to record on existing deferral accounts, and recover in rates from consumers.

AN ORDER PURSUANT TO BOARD ORDER 118/99, APPROVING SALES RATES TO BE CHARGED BY CENTRA GAS MANITOBA INC. FOR ALL NATURAL GAS CONSUMED ON AND AFTER JULY 1, 1999 - *Order No. 126/99, July 12, 1999*

Centra Gas Manitoba Inc. ("Centra") has applied to the Public Utilities Board ("the Board") for new sales rates to be effective July 1, 1999. The Board held a public hearing to consider Centra's Application and has issued Order 118/99 dated June 29 1999, which contains the Board's decisions and directives relating to Centra's Application. On July 6 and 7 1999, Centra filed with the Board the requested revised schedules, rates and rate impacts.

In this Order, the Board approved the new rates to be effective in Centra's billings for all gas consumed on and after July 1, 1999 and until December 31, 1999 as shown in the following table:

Rate Impacts - July 1, 1999 - December 31, 1999

Customer Class	July 1, 1999 Rate Impacts Approved by the Board in this Order
Small General Service	-6.3% to -7.1%
Large General Service	-7.5% to -10.4%
High Volume Firm	1.3% to1.7%
Mainline	2.6% to 3.2%
Interruptible	11.6% to13.0%

AN APPLICATION BY WESTCOAST ENERGY INC. REQUESTING APPROVAL OF THE ACQUISITION OF ALL OF THE ISSUED AND OUTSTANDING SHARES OF CENTRA GAS MANITOBA INC. BY THE MANITOBA HYDRO-ELECTRIC BOARD - *Order No. 146/99, dated July 30, 1999*

On June 4, 1999, WEI on behalf of itself and certain of its direct and indirect wholly-owned subsidiaries, submitted an application to the Board for an Order pursuant to *The Public Utilities Board Act* authorizing and approving the transfer of all issued and outstanding shares of Centra to Hydro in accordance with the terms and conditions of the Agreement dated May 14, 1999.

WEI testified that its presence in the Manitoba market no longer fits within its strategic plan. Therefore, WEI decided that Centra should be sold and Hydro, having been identified as a potential purchaser, was first approached by WEI in October of 1998.

Hydro submitted that the Transaction should provide numerous benefits to energy consumers in Manitoba including:

- synergistic cost savings of over $12 million per year;
- a one-stop energy company to meet customers' total energy requirements in the most effective and efficient manner;
- a "made in Manitoba" approach to providing comprehensive energy service with the profits and benefits staying in Manitoba;
- more efficient use of energy resources;
- a strategically stronger energy company to better confront competitive and other market risks and opportunities, and
- a broader range of employment opportunities in an expanded and diversified energy company.

Hydro strongly believes that adding the gas distribution facilities of Centra to the operations of Hydro will result in a stronger organization, better equipped to meet the energy needs of Manitobans and the competitive challenges of the future.

Impact of the Transaction on the Provision of Safe and Reliable Service

WEI submitted that both Centra and Hydro enjoyed excellent reputations for providing safe and reliable service to Manitobans, and the Transaction would not change in the continuation of this enviable level of service.

To satisfy itself of the condition of Centra's assets and its ability to provide safe and reliable service, Hydro carried out extensive due diligence of Centra's system and operations with the assistance of external consultants. Hydro and its external consultants did not identify any significant problems regarding unsafe conditions or operations. Hydro was satisfied that Centra staff were generally well trained and understood their responsibilities. Therefore the operations would be unaffected by the Transaction.

Impact of the Transaction on Competition in both the Electric and Natural Gas Industries in Manitoba

WEI testified that competition will not be impeded as a result of the Transaction. There is currently, and will continue to be, significant competition in the gas commodity market provided by aggregators, brokers and marketers ("ABMs"). WEI and Hydro also noted that Centra's monopoly position related to gas distribution would not change as a result of the Transaction. The Competition Bureau was not prepared to issue a formal ruling on the Transaction, but acknowledge that rates for both Hydro and Centra will continue to be subject to regulatory oversight by the Board.

Impact of the Transaction on Rates Charged to Ratepayers of Both Utilities

The purchase price is within the fair market value range determined by WEI, Hydro and Hydro's external consultants Nesbitt Burns Inc. ("Nesbitt Burns"). KPMG Corporate Finance Inc. ("KPMG") also concluded that the Transaction is fair from a financial point of view to Hydro. The incremental costs to

affect the Transaction would be offset by Hydro's ability to realize synergies and cost savings. All of the parties agreed that the appropriateness of the price depends on the ability of Hydro to realize the projected synergies and cost savings.

Rates in Manitoba for both electricity and natural gas markets are regulated by the Board. Therefore, Hydro will not have the ability to unilaterally increase rates once the Transaction is completed. Hydro has further testified that rates charged to both the electric and gas customers will not increase as a result of the Transaction. Once the financial targets have been achieved, decisions can be made regarding the allocation of financial benefits resulting from the combined ownership of the two utilities.

Impact of the Transaction on the Future Regulation of each of the Utilities

Hydro has not yet determined whether it prefers that future rate hearings for gas and electricity should be combined or separate, but stated that the most efficient process and structure should be the goal.

All of the intervenors either spoke in support of the transaction or did not oppose the transaction in principle. There was a strong message from the intervenors, however, that their support of the Transaction was predicated on the Board maintaining a very strong oversight role in the integration process. Further, the Intervenors recommended that the Board retain an active regulatory role over both the gas and electric operations of Hydro to ensure that the expected synergies and cost savings are achieved, and the resulting benefits are shared appropriately by customers in both utilities.

The Board approved the Transaction and the related pre-closing transactions, agreeing with Hydro that adding the gas distribution facilities to the operations of Hydro could potentially result in a stronger organization, better equipped to meet the energy needs of Manitobans and the competitive challenges of the future.

Given the professional opinions of WEI, Nesbitt Burns, KPMG, Dr. Booth, and Mr. Todd, the Board feels that the price was negotiated as an open market transaction. The Board has directed Hydro to achieve cost savings and synergies in excess of the $12 million estimated by Hydro. In so doing, Hydro should reduce the risk to the ratepayers of the amalgamation costs exceeding those previously estimated, and accelerate the realization of benefits to the ratepayers. The Board also set out several specific recommendations and directives regarding the future integration process and possible regulatory changes.

The Transaction will have no immediate impact on the current method of regulation of both the gas utility and the electric utility. Board approval will be required for any major change to the operation or regulation of each entity in the future. The Board will monitor Hydro's commitment to its customers that rates for natural gas service and electricity service will not increase as a direct result of the Transaction.

CENTRA GAS MANITOBA INC. APPLICATION FOR AN ORDER OF THE BOARD: 1. AUTHORIZING AND APPROVING A NEW FRANCHISE

AGREEMENT BETWEEN CENTRA AND THE RURAL MUNICIPALITY OF PORTAGE LA PRAIRIE; 2. APPROVING THE FINANCIAL FEASIBILITY TEST AND SCHEDULE OF CONNECTION FEES FOR THE SUBJECT FRANCHISE AREA - *Board Order No. 168/99 dated October 7, 1999.*

On July 8, 1999 Centra Gas Manitoba Inc. ("Centra") applied to the Manitoba Public Utilities Board ("the Board") for interim ex-parte approval of a new franchise agreement between Centra and the Rural Municipality of Portage La Prairie ("Portage"), the financial feasibility test for expansion of the system to serve customers within the new franchise area, and the proposed schedule of connection fees to be paid by the new customers.

Rather than proceeding on an ex-parte basis, a public notice describing the application and the manner in which the Board proposed to deal with the application, including a timetable for the orderly exchange of information, was issued on August 24, 1999. This did not include an oral public hearing.

The Application was approved.

CENTRA GAS MANITOBA INC. APPLICATION FOR AN INTERIM EX-PARTE ORDER OF THE BOARD: 1. AUTHORIZING AND APPROVING AN AMENDMENT TO THE EXISTING FRANCHISE AGREEMENT BETWEEN CENTRA AND THE RURAL MUNICIPALITY OF GREY; 2. APPROVING THE FINANCIAL FEASIBILITY TEST FOR THE EXPANSION OF NATURAL GAS TO TWO CUSTOMERS WITHIN THE EXPANDED FRANCHISE AREA - *Order No. 181/99, dated November 3, 1999*

On October 26, 1999 Centra applied to the Manitoba Public Utilities Board ("the Board") for interim ex-parte approval of an amendment to the existing franchise agreement between Centra and the Rural Municipality of Grey ("Grey"), and interim ex-parte approval of the financial feasibility test for expansion of Centra's distribution system to serve two customers within the new franchise area.

The Board recognized that the prospective dairy farm customer requires heat for the operation immediately, as does the residential customer. The Board was also cognizant of the fact that Centra's allowable investment for this project is limited to $1,543. The Board emphasized that franchise applications and expansion projects would not normally be dealt with on an interim ex parte basis. However, because of the urgency of the dairy farmer's circumstance and the relatively small investment required by Centra, the Board approved this application on an interim ex-parte basis, as requested by Centra.

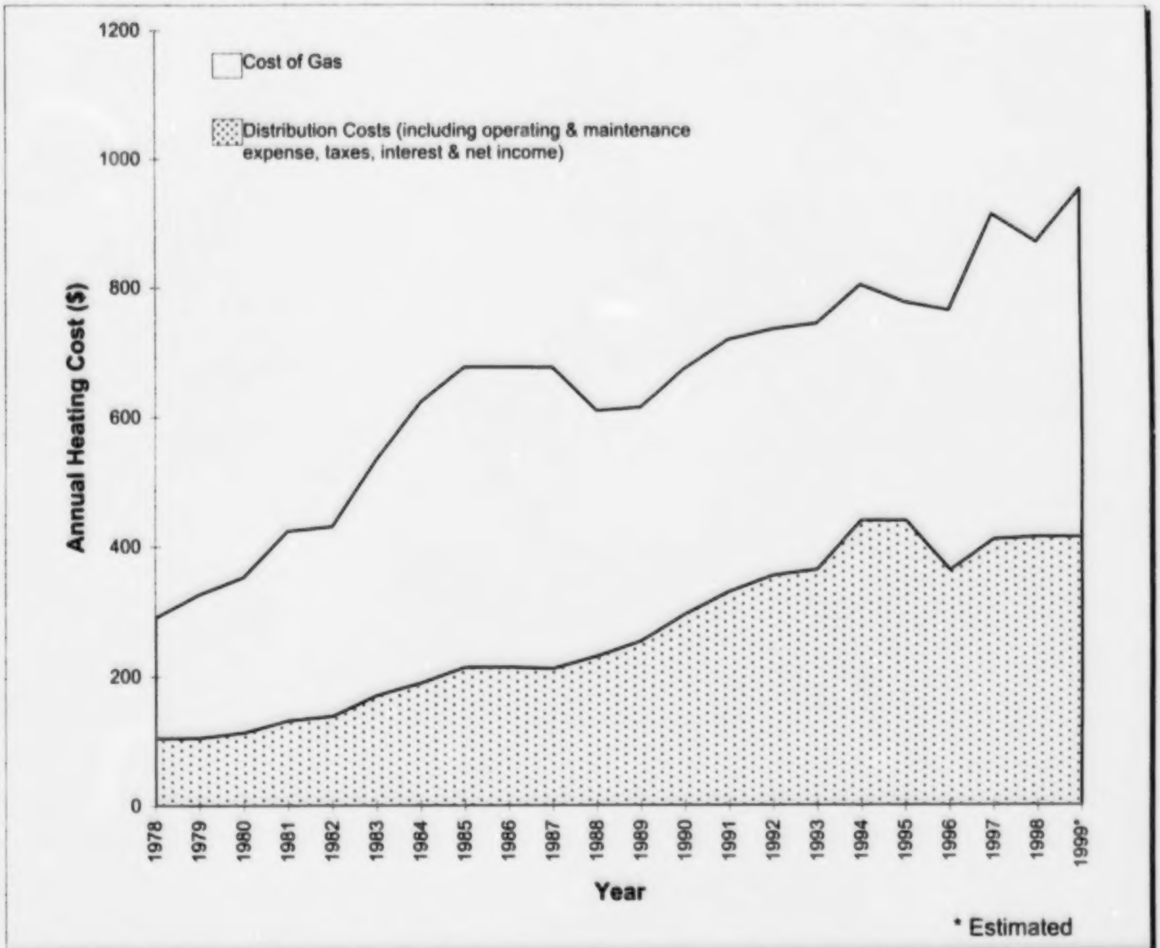
AN APPLICATION BY CENTRA GAS MANITOBA INC. FOR AN INTERIM ORDER OF THE BOARD SEEKING APPROVAL OF SALES RATES TO BE EFFECTIVE NOVEMBER 1, 1999, JANUARY 1, 2000 AND APRIL 1, 2000 - *Order No. 200/99 dated November 26, 1999*

On October 28, 1999 Centra applied for interim approval of Sales and Delivery Service rates for Firm and Interruptible customers, to become effective on November

1, 1999 to reflect forecast increases in the cost of Western Canadian Primary gas for the 1999/2000 gas year. During the hearing, Centra amended the application to request that the interim rates be implemented on December 1, 1999. Centra suggested that the cost of gas be based on the September 24, 1999 12-month forward price curve as reported in the Canadian Gas Price Recorder ("CGPR") commencing November 1, 1999 which was $3.54/GJ. Centra estimated that the resulting annual 1999/2000 cost of Western Canadian Primary gas, weighted between direct market supply and injection into storage, was $3.43/GJ.

The Application was approved subject to Centra finding revised gas costs using a price of $3.03/GJ instead of the requested $3.43/GJ and to be effective December 1, 1999. These rates were subsequently confirmed in Board Order No. 202/99.

FIGURE 1

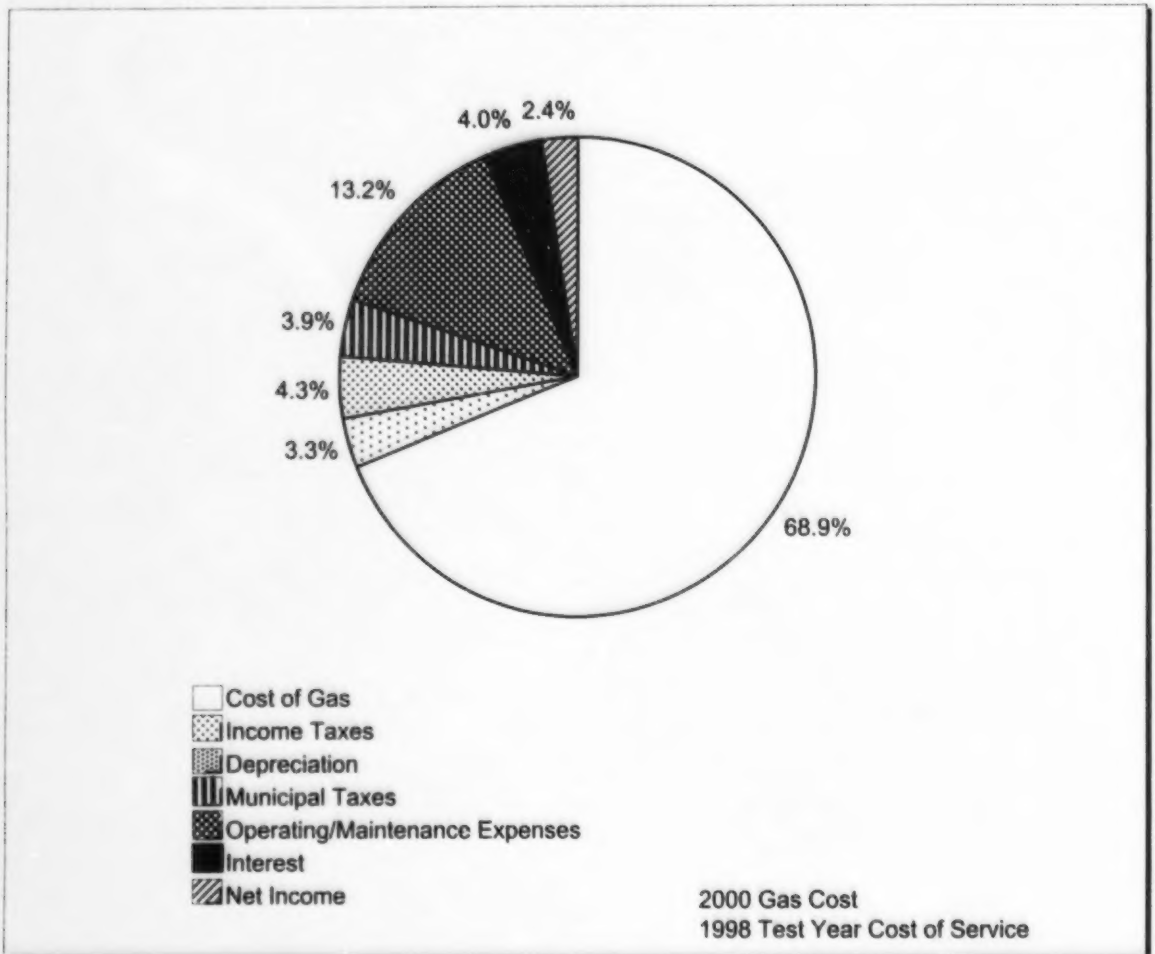


ANNUAL HEATING COST OF AN AVERAGE RESIDENTIAL CUSTOMER (Annualized Basis) Centra Gas Manitoba Inc.

Based on useage of 3,711m^3/year.

Interim, January 1, 2000 rates are based on estimated 2000 Canadian gas costs of $3.041 GJ and 1998 Cost of Service.

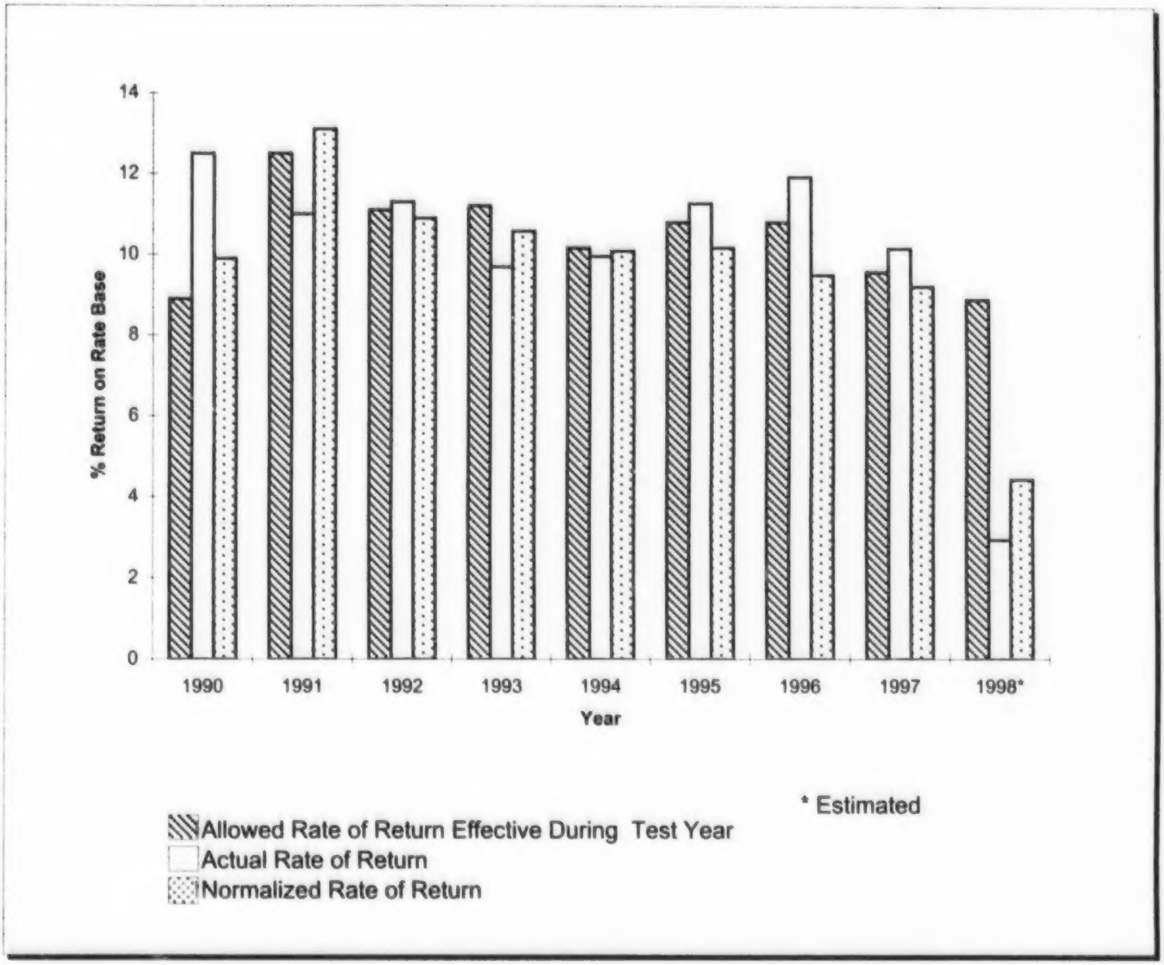
FIGURE 2



DISTRIBUTION OF GAS UTILITY SALES REVENUE
Centra Gas Manitoba Inc.

Cost of gas includes TransCanada Pipelines Limited transportation tolls, Federal and Alberta government taxes, royalties, and gathering system and producer costs

FIGURE 3



OVERALL RATE OF RETURN ON RATE BASE

Centra Gas Manitoba Inc.

NOTE: Overall rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base i.e., investment in property, plant and equipment

NOTE: Normalized rate of return is that earned by the Company assuming normal weather.

AN APPLICATION BY THE GLADSTONE, AUSTIN NATURAL GAS CO-OP LTD. FOR INTERIM EX-PARTE APPROVAL OF AN INCREASE IN COMMODITY SALES RATES TO BE CHARGED FOR ALL GAS CONSUMED ON AND AFTER NOVEMBER 1, 1999 - *Order No. 176/99 dated November 1, 1999*

On October 4, 1999, the Co-op filed an application with the Board for approval on either an ex-parte basis or on an interim ex-parte and refundable basis sales rates for all gas consumed on or after November 1, 1999. The Basic Monthly Charge of $10.00 will remain unchanged. The request was an increase of $1.30 per GJ, from $6.75 per GJ to $8.05 per GJ. The Co-op stated that this increase was necessary due to increases in the commodity cost of gas being purchased for resale, ($0.80 per GJ) and a loss of revenue from sales of excess transportation capacity on TCPL and increased TCPL tolls ($0.50 per GJ). The Co-op applied for the least cost regulation process which required the Co-op to advise its customers of the proposed changes requested and any customer concerns be forwarded directly to the Co-op.

The Co-op entered into a gas supply agreement commencing November 1, 1999 with SaskEnergy Inc. ("SaskEnergy") to purchase gas at a price indexed to the weighted average daily cost of gas at the AECO-C hub in Alberta, as reported in the Canadian Gas Price Reporter. The Co-op submitted that it had awarded the gas supply contract to SaskEnergy after a competitive bid process with reputable gas suppliers. The gas cost forecast for the year was estimated using forward strip prices and volume requirements for Co-op customers. The unit delivered rate represents an increase of $1.30 per GJ or 38% greater that the current cost of gas component of $3.40 per GJ currently embedded in rates.

The PGVA balance at the end of October 31, 1998 was approximately $24,870 owing to the customers. The Co-op stated at that time that, due to significantly reduced volumes from those previously forecasted, the Co-op was not in a position to refund the PGVA balance because there was not sufficient margin to cover operating and other non-gas related costs.

The forecast of monthly costs and recoveries from November 1, 1998 to October 31, 1999 showed a balance of approximately -$33,900, (revised to -$32,928), which was owing by consumers to the Co-op. The Co-op had acknowledged that the deficiency was significant and it was also aware of customers concerns with increasing energy prices.

The Co-op noted that because of wet weather conditions sales for grain drying purposes were up. A total of six residential conversions had occurred with a few customers adding on additional gas appliances. The Co-op also advised of the loss of significant volume where a customer converted a large boiler to coal as well as the gain of another customer who installed a somewhat smaller boiler.

The Board was satisfied on a prima facie basis that the rates applied for reflect forecast

gas costs. The Board has not received any customer complaints or responses to the notice of rate increases sent to Co-op members.

The Board asked the Co-op to evaluate the results of the efforts of the detailed plan to attract new customers to the system and to encourage those members who had deposited the connection fee to convert to natural gas and advise the Board of its findings. The Board further notes the significant balance in the PGVA account and asked the Co-op to outline its plan to deal with this over the next twelve months. The Board was concerned that if the minimum purchase and resale requirements are not met, the long term financial viability of the Co-op may be compromised.

The Board was concerned that the Co-op was not prepared to recover the balance of the PGVA for 1998/99 because there was no indication that the Co-op would achieve its required or forecasted sales volumes.

The Board directed the Co-op to file its audited financial statements with the Board, within 90 days of its fiscal year ending September 30, 1999, to include:

a) a summary of customers and sales volumes and revenue by category and community,
b) continuity schedules of fixed and accumulated depreciation,
c) sources of financing,
d) summary of operating costs by major category with previous year's comparison, and forecast for next year.

DIRECT PURCHASE OF NATURAL GAS

As of December 31, 1999 and for the natural gas year November 1, 1999 to October 31, 2000 the Board registered 17 companies for the brokerage of natural gas supplies to Manitobans.

The Board continued to monitor and supervise this direct purchase market. A number of enquiries as well as complaints were handled throughout the year.

Centra Gas Manitoba Inc. reported that, during the calendar year 1999, 2,198 direct purchase arrangements were submitted by Brokers. Gas started flowing for a total of 3,280 new accounts in 1999, this figure includes some submissions from 1998. A total of 13,102 accounts were terminated partly as a result of a Broker returning all of its customers (9,783) to system gas for November 1, 1999. Some applications were rejected because of inadequate information or because the customer was already under a direct purchase arrangement. As of December 31, 1999 natural gas was flowing for approximately 45,997 accounts under direct purchases.

PROPANE GAS DISTRIBUTION

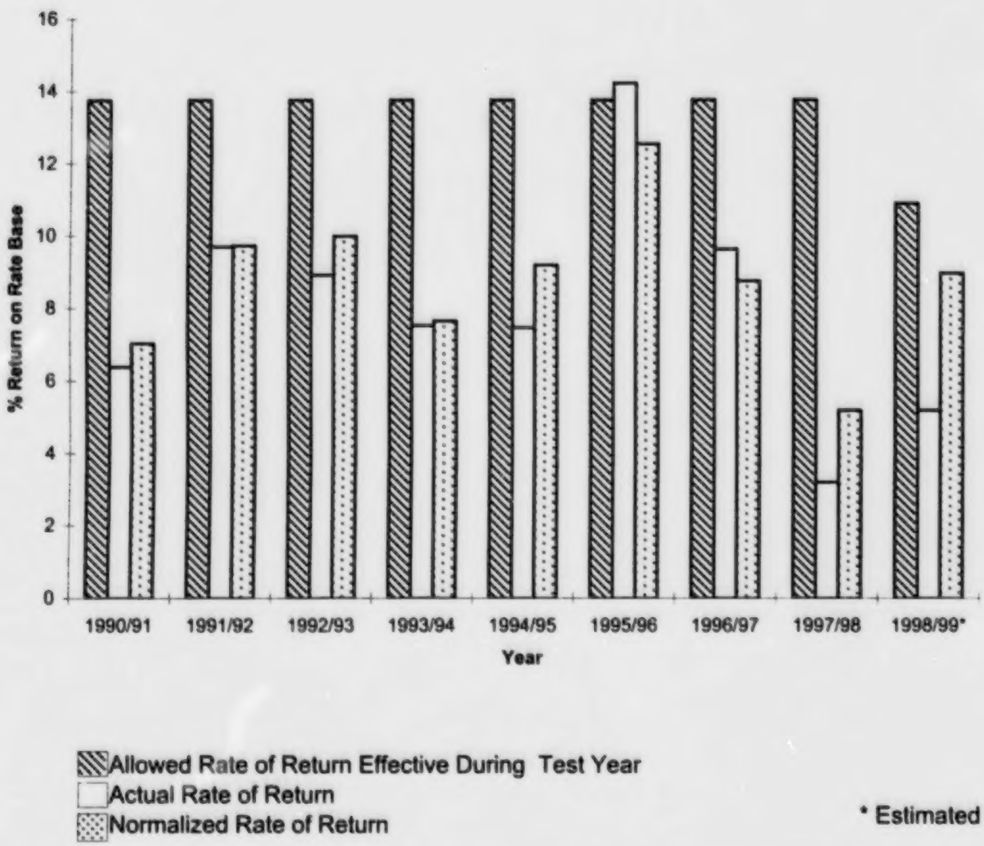
STITTCO UTILITIES MAN LTD.

On October 13, 1999 Stittco applied to the Board for an Order approving the addition of a rate rider in the amount of $0.123 per cubic metre as a result of increased propane supply costs. The rate riders would result in an overall increase of 10.98% in the propane costs to the consumer. Stittco's supply cost is determined by tender.

The Board examined Stittco's tender process and supply prices and determined that their increased product costs should be passed on to consumers. Order No. 182/99 dated November 4, 1999 approved rates to be effective on propane consumed on and after October 1, 1999.

Pursuant to a request of Stittco the increase approved in Order No. 182/99 was delayed one month as set out in Order No. 187/99 dated November 10, 1999. Stittco indicated it was sensitive to the state of the Thompson economy and therefore wished to delay the increase.

FIGURE 4



OVERALL RATE OF RETURN ON RATE BASE

Stittco Utilities Man. Ltd.

NOTE: Overall rate of return is the return earned or allowed to be earned by a utility calculated as a percentage of its Rate Base i.e., investment in property, plant and equipment

NOTE: Normalized rate of return is that earned by the Company assuming normal weather.

SERVICE DISCONNECTION AND RECONNECTION

The disconnection and reconnection of service by public utilities is regulated pursuant to Section 104.1 of The Public Utilities Board Act. Board Order Nos. 107/94, 77/93 and 139/92 approved the policies and procedures for service disconnection and reconnection by Centra Gas Manitoba Inc. and Stittco Utilities Man Ltd. These policies and procedures also apply to the Gladstone, Austin Natural Gas Co-op.

The major activities of the Board in this area of responsibility are as follows:

1) Handle inquiries from the public (telephone, in-person interviews).
2) Conduct hearings on customer appeals against the disconnection action.
3) Review on-going disconnect reports submitted by the utility and audit such reports.

CENTRA GAS MANITOBA INC.

Staff handled about 500 calls from customers who were disconnected or about to be disconnected. This is down to normal annual levels from a peak of 1000 calls last year. The calls and inquiries generally dealt with the customers' obligations in settling their accounts and the appeal procedures of the Board. The number of customers in the residential class with large outstanding amounts continue to fall allowing the Company to focus in on customers with smaller amounts outstanding causing additional calls to the Board.

Residential customers generally requested the continuation of service and more favourable repayment terms from Centra.

Complaints from commercial customers were minimal. However, inquiries and complaints from landlords levelled off and generally dealt with security deposits and disputes about responsibility for the bill between the landlord and the tenant.

Activity to December 31, 1999

CENTRA GAS MANITOBA INC.	1993	1994	1995	1996	1997	1998	1999
Total residential customers disconnected*	3875	3346	3284	3924	3151	3650	4151
Total residential customers reconnected	3800	3277	3158	3842	3065	3557	3922
Vacant, alternative heat etc. and disconnected	75	69	126	89	86	93	219
Commercial disconnected	548	458	512	457	459	443	372
Commercial reconnected	501	430	487	439	448	418	212
Vacant, alternate heat, etc. and disconnected	47	28	25	18	11	25	160

Customers who contacted the Board were given information about the policies and procedures and also, were advised to attempt to resolve their dispute with Centra. Failing a resolution, an appeal hearing was held.

The Board conducted a total of 23 Hearings.

As in previous years there were two areas of dispute which were identified in these hearings. The basis for requesting a security deposit of a gas customer and the reinstatement of gas service based on a payment plan which suited the payment ability of the customer.

The Board reviewed liability and established new payment schedules to be complied with by the customer as a condition for reconnection. On occasion the Board asked the customer and Centra to meet and resolve the dispute with Centra and then concluded the matter with a letter of understanding. A large number of complaints were referred to Centra by Board staff and resolved without the need for a hearing. This also included having the customer meet with Centra to discuss the issues.

As in previous years several audits were undertaken to evaluate Centra's compliance with the legislation and the Board approved policy and procedures. These audits involved reviewing the Centra's customer files and in some cases contacting the customer.

The Board conducted an audit of Centra's disconnected files. Each file was reviewed to evaluate the adequacy of information for compliance with the approved procedure. Specifically, the Board reviewed those files wherein the building was deemed to be vacant. The Board also reviewed files to determine if proper notice of disconnect was given and if there were any instances of unusual hardship being experienced by the disconnected customer, specifically with the elderly, the sick and those with children. In cases where there were concerns, the Board asked Centra to further review specific files and report back. The Board was satisfied with the quality of information which continue to show significant improvement over previous years.

The Board notes that there has been an increase in the number of customers disconnected (4151) over last year.

STITTCO UTILITIES MAN LTD.

A total of 5 customers (2 commercial) were disconnected in 1999 (26 in 1993; 20 in 1994; 18 in 1995; 13 in 1996; 24 in 1997, and 23 in 1998). As the number of disconnections for Stittco was small, detailed information on each customer was obtained in order for the Board to determine and find full compliance with the legislation and Board approved policy and procedures.

GLADSTONE, AUSTIN NATURAL GAS CO-OP

There were no disconnections by the Co-op in 1997, 1998 and 1999.

THE GAS PIPE LINE ACT

The Gas Pipe Line Act (the Act), administered by the Board, governs the public safety aspects of the distribution of natural gas by Centra Gas Manitoba Inc. and Gladstone, Austin Natural Gas Co-op, of propane by Stittco Utilities Man Ltd. in Thompson, Snow Lake and Flin Flon, and of propane by Manitoba Housing Authority in Churchill.

The Board's primary responsibility is twofold. Firstly, the Board reviews pipeline owners adherence to safety standards as adopted by the Board and/or by Regulations to the Act. The enforcement is accomplished by reviewing and approving all plans of proposed construction and by monitoring the field construction, installation and inspection procedures.

The second major area of responsibility involves the investigation of pipeline damage occurrences, explosions and/or fires caused by either propane or natural gas.

Such investigations may lead to recommendations related to the distributors' emergency procedures and may also involve recommendations to other agencies and stakeholders in order to prevent similar incidents in the future.

In 1999, there were 202 reported incidents of pipeline damage, of which 170 resulted in "blowing" gas. The major causes of such occurrences were related to third party excavations for which clearance was not sought from the utility. Others were caused by excavators not following safe excavation procedures and by improper line location provided by the utility. Parties continue to meet with excavators to make them aware of the Regulations.

The Board is represented on the Canadian Standards Association (CSA) Steering Committee, Technical Committee and Gas Advisory Council on Oil and Gas Pipeline Systems.

The Board, in Order No. 195/99 approved the latest edition of the CSA Oil and Gas Pipelines Standard for use in Manitoba titled Z662-99 Oil and Gas Pipeline Systems.

MANITOBA HYDRO

Manitoba Hydro rates are approved by the Board under *The Crown Corporations and Public Review and Accountability Act, The Manitoba Hydro Act* and *The Public Utilities Board Act*.

Manitoba Hydro's last application to the Board for approval for rates was made in 1995, for rates effective April 1, 1996 and 1997. No general rate application has been made since that time.

Curtailable Services Program

Manitoba Hydro offers to its large customers service under the Curtailable Services Program (CSP) that in exchange for a rate discount Manitoba Hydro reserves the right to curtail these customers in times of need to serve firm loads. Such an arrangement is an alternative to constructing reserve or peaking facilities and has become an important part of demand side management strategies of many utilities in North America. The ability to curtail service to large customers on short notice provides Manitoba Hydro with the added flexibility to respond to emergencies and to improve its ability to market short-term firm power to other markets. Hydro estimated that the present value benefit to ratepayers of extending the program for ten years is $1.4 Million and that CSP customers will benefit by $1.5 Million annually.

Pursuant to the CSP the Board throughout 1999 issued several Orders approving the monthly reference discounts.

The Board also issued Order No. 73/99 dated April 28, 1999 approving amendments to the terms and conditions of the CSP approved in Order No. 166/98. The participating months for the CSP were extended to include October, thereby increasing the benefits to both Manitoba Hydro and the CSP users.

Throughout 1999, the Board issued several interim ex parte Orders approving the Industrial Surplus Energy Spot Market Replacement Energy Rates.

MANITOBA PUBLIC INSURANCE

The Manitoba Public Insurance Corporation ("the Corporation") filed an application with the Board on May 26, 1999 for approval of premiums to be charged for compulsory driver and vehicle insurance ("Basic insurance") for the insurance year commencing March 1, 2000 and ending February 28, 2001 ("Insurance year"). The Corporation sought no increase in overall motor vehicle premiums and no changes in drivers' premiums.

MPI stated that the Application was consistent with the Corporation's financial plan with no overall basic Autopac rate increases for three years. While that plan contemplated the continuation of the 5% Rate Stabilization Reserve ("RSR"), the Corporation proposed the elimination of the 4% contribution and a continued commitment for no overall rate increases for two more years.

The Corporation stated a strong economy, higher than forecast investment income and claims cost control resulted in a financially stronger Corporation and hence, no need for an overall increase in premiums.

However, the Application set out various increases and decreases in premiums to reflect classification and experience related issues. No change in driver's licence premiums and various service and transaction fees were proposed.

In the application, major use classifications were to receive different vehicle premium impacts as follows:

Private passenger vehicles	-4.7%
Commercial	-3.1%
Public	+4.0%
Motorcycle	+10.6%
Trailers	+10.8%
Off-road vehicles	-13.8%
Overall	-4.0%

Experience based adjustments vary by vehicle within a range from −15% to +15%, taking into account claims history based upon insurance use, territory in which the vehicle is driven, and type of vehicle. Those vehicles for which premiums did not cover the expected full cost of insurance benefits and coverage were facing experience adjustments. Some were to have their adjustments capped at 15%, prior to the removal of the RSR load.

The Board approved all experienced based adjustments as applied for by the Corporation.

In the application, the impact of rate group changes and offset adjustments results in annual premium increases exceeding $100 for 800 vehicles and annual premium decreases exceeding $100 for 64,000 vehicles.

The Board noted that total operating, claims, regulatory/appeal and road safety expenses had increased over the past three years from $73 million to $95 million forecast for the insurance year. A large part of the increase was attributed to expenditures largely driven

by Y2K concerns. Operating expenses were forecast to decrease, primarily because of a decrease in major I/T expenditures. The Board expressed concern about the increased level of staffing, and directed the Corporation to realize efficiencies further by controlling operating costs and staffing levels.

The Board noted that the Corporation continues to settle outstanding third party bodily injury claims which arose under the tort system prior to the implementation of the no-fault Personal Injury Protection Plan ("PIPP") on March 1, 1994. The Corporation reassesses the expected cost of settlement of these outstanding tort claims annually. The Corporation has recorded provisions in excess of its prior expectations in the amounts of $50.3 million in fiscal 1996, $5.3 million in fiscal 1997, $9.2 million in fiscal 1998, and $13.3 million in fiscal 1999 related to these unsettled claims. At the time of the hearing there were 843 remaining pre-PIPP tort claims for which the Corporation is actively seeking settlement. In Insurance Year 2000, the Corporation obtained $20 million of reinsurance protection to place some limit on the financial exposure to the Corporation that could result from settlement of these claims.

The Corporation made a one-time adjustment of $9.1 million to provide for the inflation indexing of weekly disability benefits under the pre-PIPP tort system. Although the Corporation was not statutorily obligated to make this adjustment, the Board accepted the Corporation's decision which brings greater equity to all motor vehicle accident victims receiving disability benefits.

In 1995, the Corporation's Board of Directors approved an RSR plan to rebuild the retained earnings for Basic insurance from a deficit balance of $49.5 million. The goal was to achieve an RSR balance of 15% of direct premiums written by including a specified annual RSR contribution. The Board approved a 2% RSR contribution for fiscal year 1997, followed in fiscal 1998 by a further 2% RSR contribution, and an additional 1% RSR contribution in fiscal 1999. The requested continuation of the 5% RSR contribution in Insurance Year 2000 was reduced to 4%. Over the past four years the Corporation has received $55 million through the RSR contribution. As noted earlier, the Corporation requested the elimination of the 4% RSR contribution.

To determine an appropriate RSR target, the Corporation prepared a statistical variance analysis of the five component risk factors underlying net income being premium revenue, investment risk, claims costs, claims expenses, and operating expenses. Based on this new methodology, the RSR target was projected to range from $78 to $105 million. Rather than have a target that fluctuated annually, the Board of Directors of the Corporation chose a range of $80 to $100 million for the next three years. The RSR for Basic insurance is forecast to total $96.7 million by the end of Insurance Year 2001. The Corporation also has retained earnings from its Extension and Special Risk Extension lines of business which totalled $73.2 million at the end of Insurance Year 1999. Assuming no increase or decrease in retained earnings since the end of Insurance Year 1999 for the other lines of business, the Corporation's total retained earnings at the end of Insurance Year 2001 will be more than $169 million.

The Board considered the overall financial strength of the Corporation for rate setting purposes, and determined that the $80 to $100 million range proposed by the Corporation for the RSR target was excessive. The Risk Analysis used to establish the target included operating expenses, pre-PIPP data, and the variance of costs and revenues from long-term averages instead of a variance of annual budget to actual amounts. In the Board's view, a lower target was more reflective of the expected enhanced stability under the PIPP system, a decreased provision for controllable operating expense risk, and the methodological change to use an annual forecast to actual approach.

The Board noted the substantial premium increases the motorcycle class has received over the past years. The actuarially determined rate increase for motorcycles is approximately 50% but annual increases in the motorcycle rates have been capped at 15%. As a result of the Board's decision in this application, motorcycle rates will increase by approximately 10%, taking into account removal of the 4% RSR contribution and the additional 1% decrease in overall average vehicle premium ordered by the Board.

Another component affecting the requested premium changes is the continued implementation of the Canadian Loss Experience Automobile Rating System ("CLEAR") for passenger vehicles and light trucks. CLEAR reflects the actual claims cost history for each vehicle make, model and year, and therefore better aligns the premiums to reflect the risk of claims attached to each vehicle. CLEAR is currently being implemented by automobile insurers across Canada as an improved rating system. As a result of CLEAR, some vehicle owners will experience larger rate increases since they have been paying less than their actuarially indicated premiums, and therefore have been subsidized by others. A number of vehicle owners will also receive decreases in their premiums. By the end of Insurance Year 2001, it is expected that 95% of all vehicles will have reached their appropriate CLEAR rate group.

The Corporation has undertaken substantial consumer education initiatives by providing motorists with a brochure explaining the CLEAR rating system. However, the Board determined that a re-examination of the CLEAR system, as adapted to apply to Manitoba motorists, was warranted. Accordingly, the Board has asked the Corporation to prepare and file a report in that respect in connection with next year's general rate application.

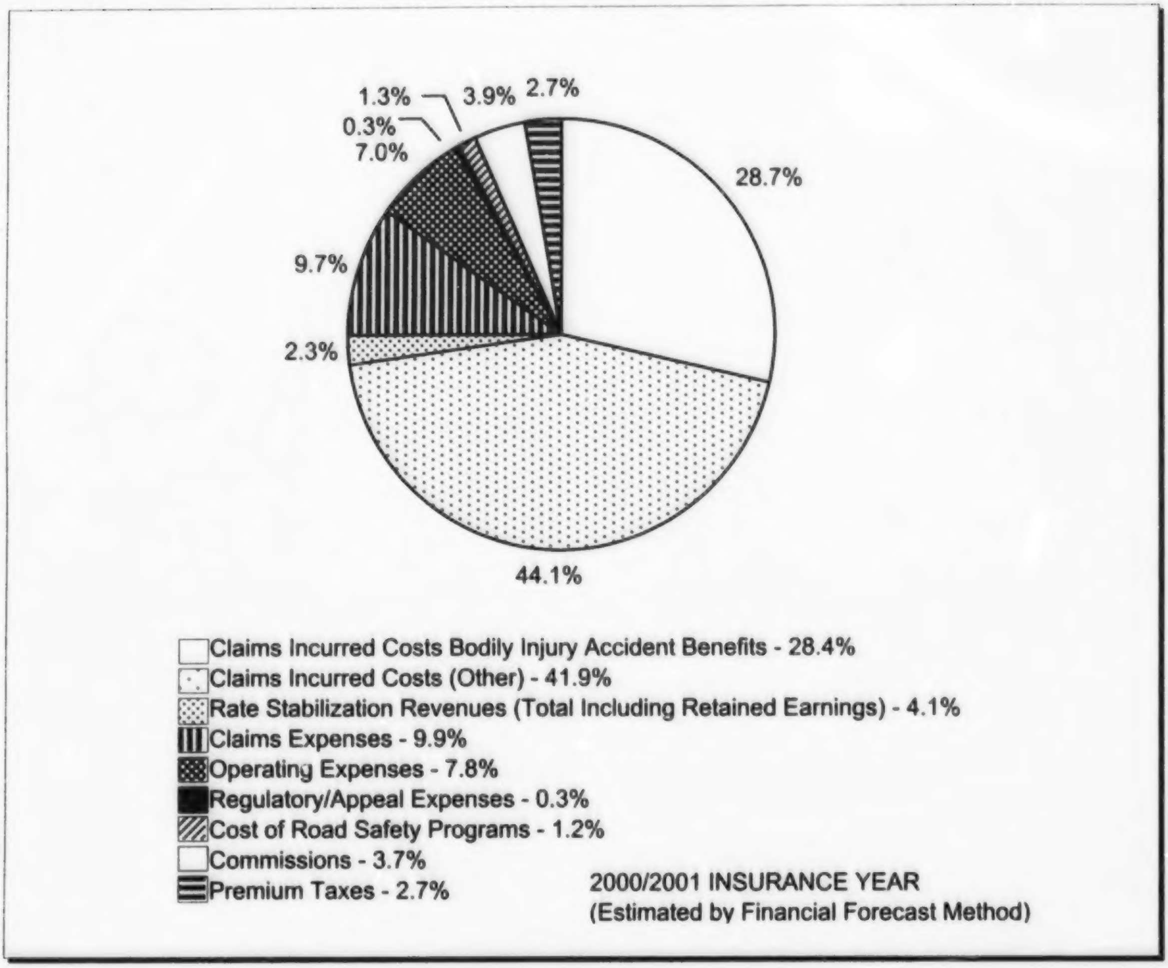
The Corporation stated that it intends to review its current bonus/malus system of surcharges and premium discounts. Accordingly, the Board requested that the Corporation file a report in that regard at the time of its application next year. The Board requested the Corporation to review its rate making methodology with respect to trailers valued under $2,500 being included in one rate group. The Board requested the Corporation to review the treatment of large losses. As well, the Board requested the Corporation to review its practice of capping premiums at the Territory 1 level for motorists living adjacent to the Winnipeg area and to adapt its analysis to recognize differences in territorial distributions.

The Board agreed with the Corporation's

"Road Wise" safety program, and has instructed the Corporation to review and file a report at next year's general rate application addressing the allocation of road safety program costs to all of the Corporation's lines of business. The Corporation has also been instructed to review the method used to allocate operating and other non-claims related expenses across major use classifications.

In Order No. 199/99 dated November 26, 1999 the Board approved the premiums to be charged by the Corporation made consistent with Order No. 177/99.

FIGURE 9

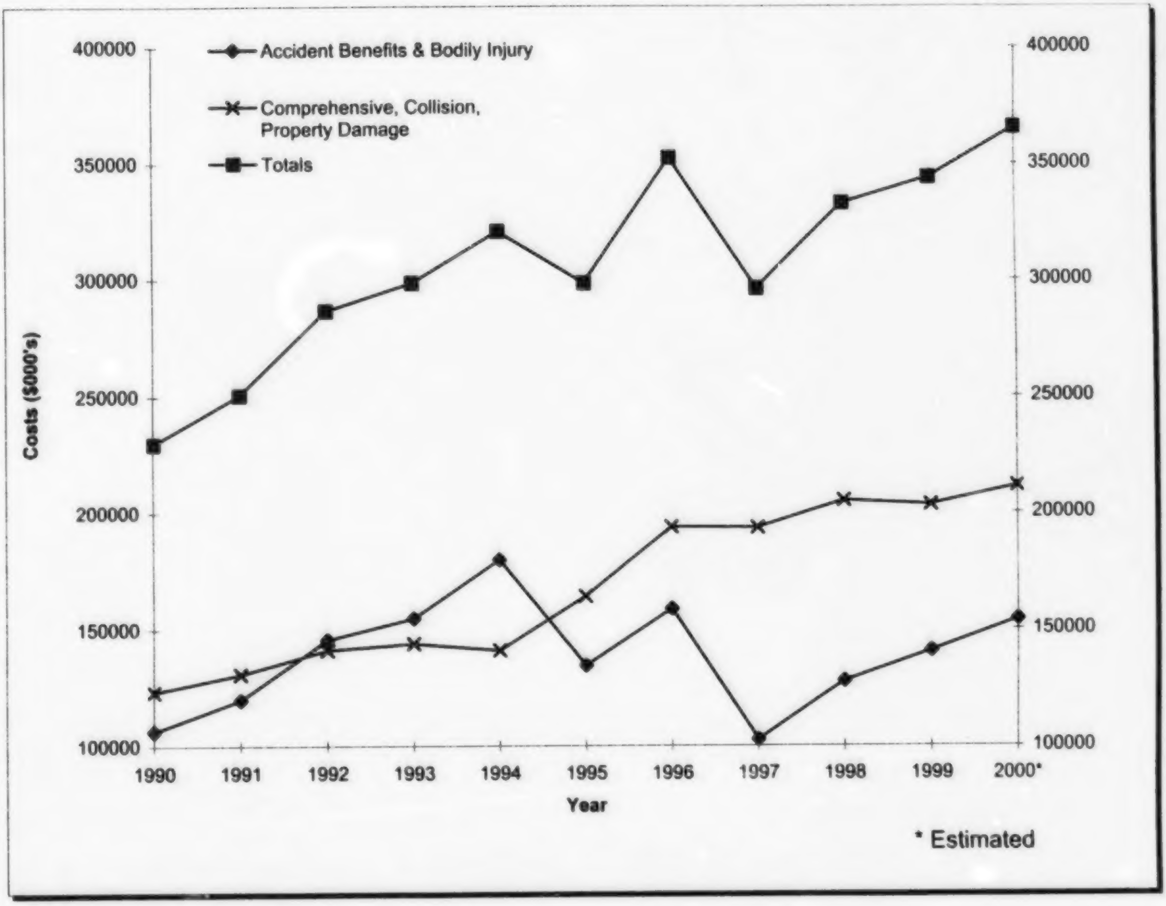


DISTRIBUTION OF NET REVENUES
BASIC DIVISION

Manitoba Public Insurance

Drivers' Premiums, Motor Vehicle Premiums, Investment Income less reinsurance ceded

FIGURE 10

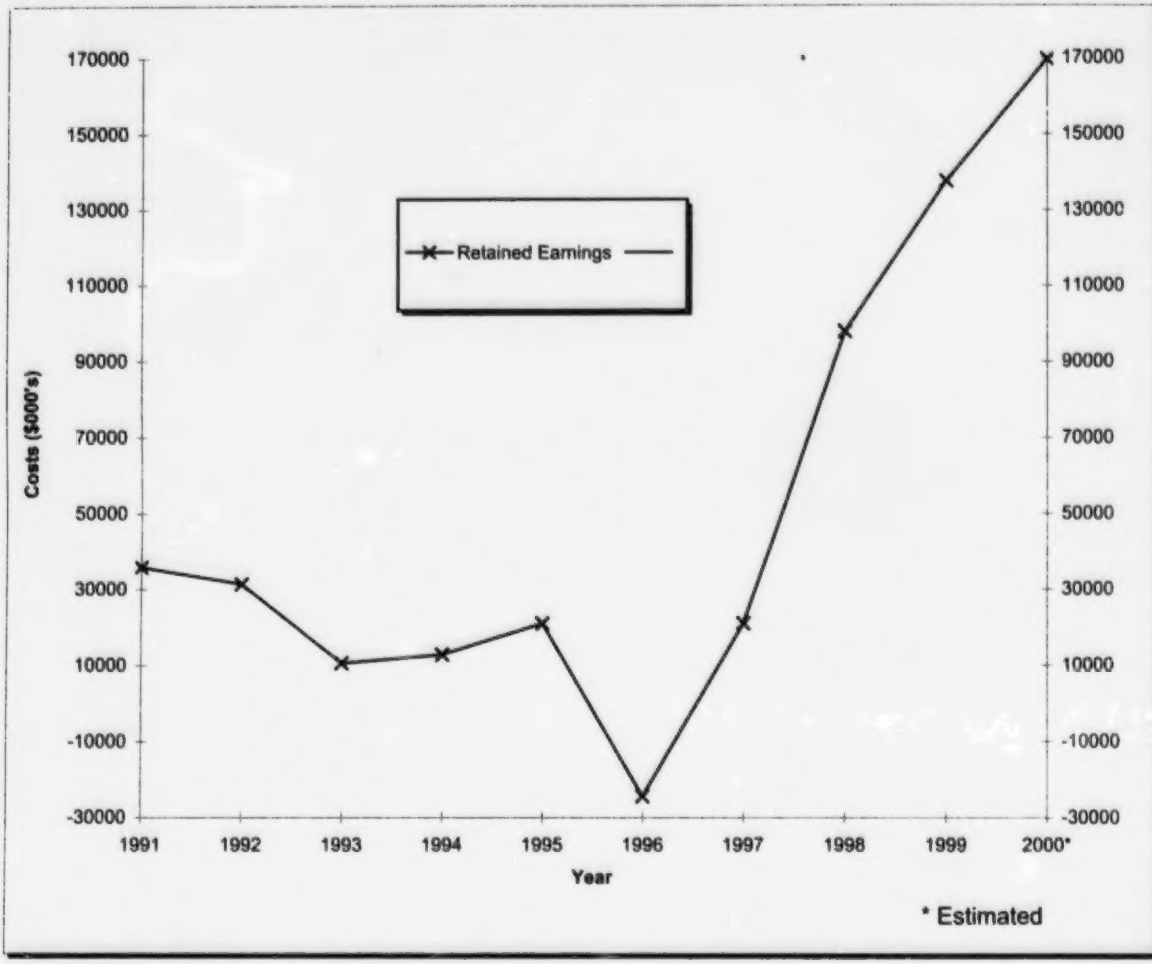


MANITOBA PUBLIC INSURANCE
CLAIMS INCURRED COSTS

BASIC DIVISION

Insurance Year Ending Feb. 29

FIGURE 11

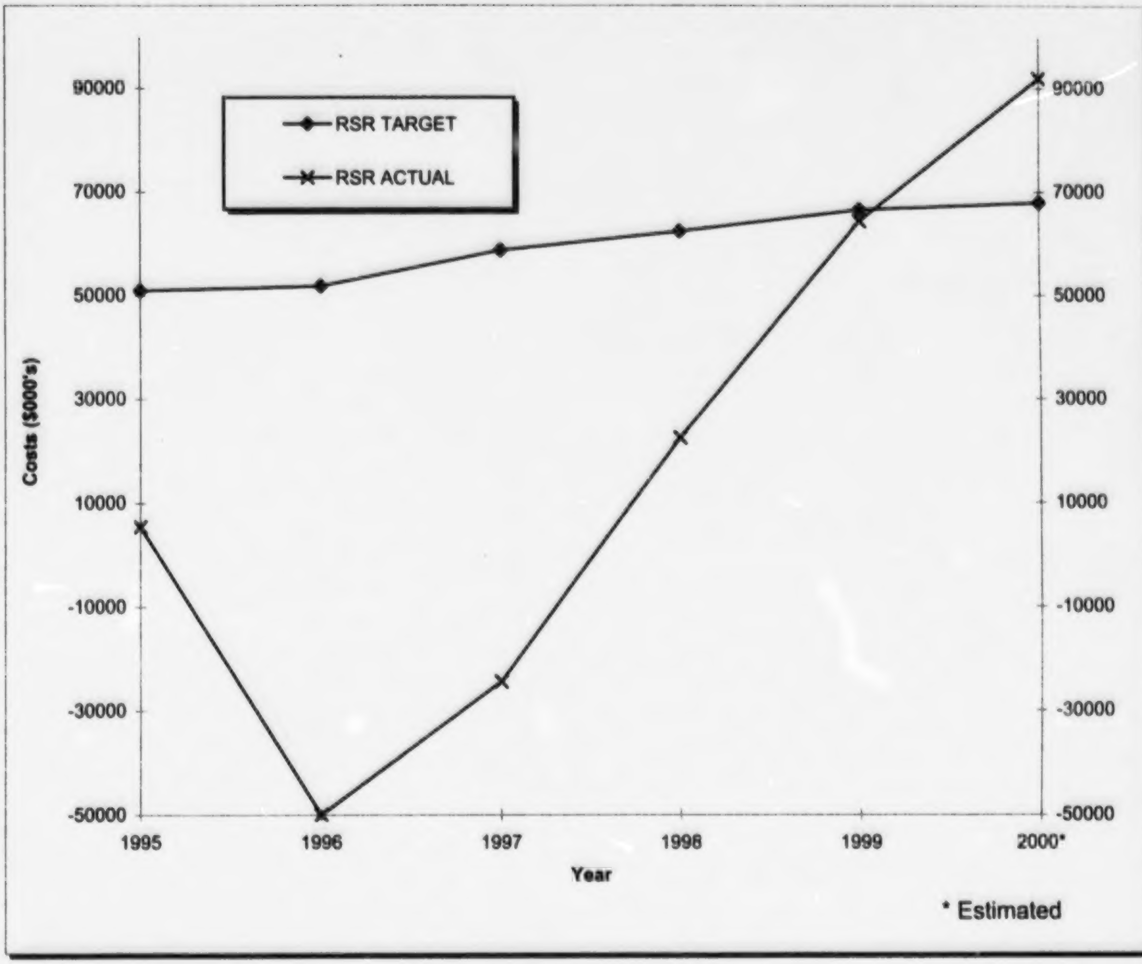


MANITOBA PUBLIC INSURANCE
RETAINED EARNINGS

(Basic, Extension and Special Risk Endorsement)

Insurance Year Ending Feb. 29

FIGURE 12



MANITOBA PUBLIC INSURANCE
BASIC RATE STABILIZATION RESERVE

Target is shown at 15% of Direct Premiums Written

Insurance Year Ending Feb. 29

THE MUNICIPAL ACT/THE CITY OF WINNIPEG ACT

WATER AND SEWER UTILITIES

The Board issued a total of 68 Orders respecting applications filed with the Board by local municipal authorities, as set out below:

(i) 31 Orders were issued respecting applications for approval and authorization for methods of recovery pertaining to operating deficits for the year ended December 31, 1998.

(ii) 37 applications for revisions, amendments to or establishment of rates were processed and Orders were issued authorizing same. Board guidelines which have been prepared and distributed to local authorities were applied wherever possible to assist with rate design and to ensure that sufficient revenue would be provided to cover normally anticipated operating expenses plus an adequate contingency allowance. Applications were handled by public hearing or returnable date notice. In all cases the municipalities and affected water and sewer customers were served appropriate notice.

The Board's staff assisted applicant municipalities and others contemplating changes and seeking guidance in the preparation of their applications thus reducing the cost to the municipalities in preparing a report. Board's staff met frequently with municipal representatives to ensure that applications were filed in the form prescribed by the Board, pursuant to statute. In most instances, these applications required the preparation of rate studies, and when necessary, public hearings were held in the applicant municipalities.

TRANSPORTATION SERVICES

In 1999 the Board issued one Order pursuant to section 573 of the City of Winnipeg Act respecting agreements between the City and local passenger transportation services.

THE HIGHWAYS PROTECTION ACT

Pursuant to Section 21 of The Highways Protection Act the Board is the appeal body to decisions of The Highway Traffic Board respecting applications for permits for the change in use of an access driveway, the relocation of an access driveway, or the construction of an access driveway onto a Limited Access Highway (LAH) and also, the building of structures within the control limits of LAH.

The Board conducted three hearings in 1999 respecting the construction of a building with the control links of PTH No. 5A and the construction of two access driveways, one onto PTH No. 9 and the other PTH No. 50. A temporary access was approved onto PTH No. 9 and the others were denied.

THE PREARRANGED FUNERAL SERVICES ACT

As administrator of The Prearranged Funeral Services Act, the Board is responsible for licensing companies selling prearranged funeral plans and for reviewing the operations of these firms as to conformity with statutory requirements.

In 1999, the Board issued 22 renewal licences. Fourteen applications for revisions in fees for services were acknowledged, two applications for sales contract revisions and nine applications for trust agreement revisions were approved.

The Board continued to review and monitor the annual reports filed by the licensees and their trustees in respect of the prearranged funeral plans being sold and the contracted funds maintained in trust.

THE CEMETERIES ACT

Pursuant to Part III of The Cemeteries Act, the Board reviews applications and issues licences to the owners of cemeteries, columbariums and mausoleums that are owned and operated for gain and if not owned and operated for gain, where more than 15 sales of plots occur in any year. Cemeteries related to religious denominations or owned by municipalities are not required to be licensed by the Board.

Pursuant to Part II of the Act, the Board approves the plans of and issues licences for the operation of crematories.

During the year the Board issued renewal licences for the operation of 9 cemeteries, 12 columbariums, 5 mausoleums, 13 crematories and initial licenses for the operation of 17 columbariums and 1 cemetery.

65 licences and 0 transfer licences to sell cemetery services were issued either to owners or to their sales personnel. In addition, 13 applications for revisions in schedules of fees for spaces, materials and services were authorized. 3 purchase agreement revisions and 1 initial sales agreement were approved.

The Board continues to monitor the licensee's compliance for the passing of accounts in respect of perpetual care funds collected and deposited in trust funds with authorized trustees pursuant to The Cemeteries Act and pursuant to legislation passed in 1999 will assume responsibility for the passing of such accounts from the Court of Queen's Bench.

The transfer of the operations of the Elmwood Cemetery Company to "Friends of Elmwood Cemetery" concluded in 1999 and with that a transfer of perpetual care funds was made to the Winnipeg Foundation on behalf of "Friends of Elmwood Cemetery".

FINANCIAL INFORMATION

REVENUES/EXPENDITURES

The financial affairs of the Board are conducted through the Estimates of the Department of Consumer and Corporate Affairs. Accordingly, the expenses of the Board are paid out of the Consolidated Fund and then these expenses are recovered from the regulated industries.

For the fiscal year ending March 31, 1999 the Board's expenditures and revenues were as follows:

Revenues		$1,696,914.85
Expenditures		
Rate regulation and safety related costs	$776,102.68	
Salaries and Per Diems	$502,408.09	
Difference		$ 418,404.08

Order No. 38/89 sets out the means by which the Board recovers its expenditures relating to proceedings before the Board. Order No. 2/94 together with Order-in-Council 142/1994 provide for the Board to recover costs including administration and salaries from the major regulated industries including Manitoba Public Insurance, Manitoba Hydro, Centra Gas Manitoba Inc. and Stittco Utilities Man Ltd.

INTERVENER FUNDING

Pursuant to The Public Utilities Board Act and Order No. 163/87, the Board may award costs to parties making an intervention in matters before the Board. These costs are paid directly by the applicant entity and, therefore, do not form part of the expenditures of the Board. Details of awards in the calendar year 1999 are as follows:

	Applied for	Granted
Centra Gas Manitoba Inc.		
1998 PGVA and 1999 Sales Rates		
CAC/MSOS[1]	\$81,019.78	\$71,019.78
Proposed Acquisition of All Issued and Outstanding Shares of Centra Gas Manitoba Inc. by Manitoba Hydro		
HVAC[2]	\$ 3,775.00	\$ 3,775.00
MIPUG[3]	\$ 65,789.31	\$ 65,789.31
CAC/MSOS	\$195,842.88	\$195,842.88
Approval of New Franchise Agreements with the Rural Municipalities of Rockwood and Woodlands and the Town of Teulon		
ING[4]	\$ 21,007.59	\$ 21,007.59
CAC/MSOS	\$ 59,864.41	\$ 59,864.41
Approval of Policy Guidelines for Price Management Policy and the Price Management Plan		
CAC/MSOS	\$ 92,664.36	\$ 82,664.36
Approval of a Contract Between Centra Gas Manitoba Inc. and Enlogix CIS LP		
HVAC	\$ 2,470.00	\$ 2,470.00
CAC/MSOS	\$193,878.01	\$193,878.01
Objections Raised by Centra to Board Order 79/98 in its Leave to Appeal to the Manitoba Court of Appeal		
CAC/MSOS	\$ 33,218.06	\$ 33,218.06
Application by CENGAS for a Review of Board Order No. 79/98		
McCain Foods (Canada)	\$ 4,793.02	DENIED
CAC/MSOS	\$ 9,684.36	\$ 9,684.36
Approval of a New Franchise Agreement with the Rural Municipality of Hanover		
CAC/MSOS	\$ 22,591.15	\$ 22,591.15

Manitoba Public Insurance

2000 Insurance Rates		
MLRAI[5]	$ 11,333.94	$ 8,702.89
CMMG[6]	$ 13,483.29	$ 13,483.29
CAC/MSOS	$ 31,590.79	$ 31,590.79
1999 Insurance Rates		
CAC/MSOS	$ 72,030.90	$ 72,030.90
MLRAI	$ 14,000.84	$ 11,055.84
CMMG	$ 32,748.64	$ 31,231.05

[1]Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors
[2]Heating, Ventilating and Air Conditioning Coalition of Manitoba
[3] Manitoba Industrial Power Users Group
[4]Interlake Natural Gas Co-op
[5]Manitoba Lawyers for Responsible Automobile Insurance
[6]Coalition of Manitoba Motorcycle Groups Inc.